

**City of Harrington**  
**MINUTES**  
**City Council Workshop**  
**February 10, 2014**

A workshop with the Harrington City Council was held at Harrington City Hall, 106 Dorman Street, on February 10, 2014 and was attended by the following: Mayor Anthony R. Moyer; Vice Mayor Cheryl Lahman; Council Member Duane E. Bivans; Council Member Fonda Coleman; Council Member Amy Minner; Council Member Charles W. Porter; Council Member Kenneth Stubbs; William Pepper, City Solicitor; Teresa Tieman, City Manager; and Kelly Blanchies, Clerk of Council.

Also present: Jean Holloway, Delaware Rural Water Association; and Ray Steele.

Mayor Moyer called the meeting to order at 6:30 p.m.

The Pledge of Allegiance was given.

**Water and sewer rate study**

The City Manager stated that water and sewer utilities are a business regardless of who owns them, and a utility has a responsibility to its customers to guarantee its prosperity in the long term; rates need to be considered carefully. There have been significant changes to the City's system operationally and in debt service. A significant change is needed with the sewer rate. The City Council can hire a rate consultant if they wish.

The City Manager stated that ratepayers want their service cheap and most do not want to think about the utility ever. A persistent, tiny minority of ratepayers want to think about the utility all the time.

The City Manager stated that the goal is to set and maintain utility rates and fees that are fair and adequate to sustain our system. The rate should cover system costs, build reserves, be fair to all, be based on usage, and have no usage allowance.

The City Manager stated that water and wastewater rates were last changed in June 2010 as part of a five year phase in process. There have been significant changes to operations and capital in the wastewater utility, including the implementation of the contract with Kent County for treatment of wastewater, increase in debt service related to the force main, establishment of reserve and contingency funds, better allocation of general fund support to utilities, re-

evaluation of transfer to general fund, and water meter installation and desire for usage based billing.

Jean Holloway from Delaware Rural Water Association stated that she has reviewed the information being presented, and it is sound in logic.

The City Manager stated that the cost for debt service and Kent County fees cannot be re-negotiated in the short term and are unavoidable costs. The debt service for wastewater has increased by two hundred seventy-one thousand dollars (\$271,000) due to the construction of the force main. The contract with Kent County for sewage treatment has increased annual costs by one hundred thirty-four thousand dollars (\$134,000), which is the County fees of four hundred twenty thousand dollars (\$420,000) less the operational savings of two hundred eighty-six thousand dollars (\$286,000).

The City Manager stated that discretionary costs that require analysis and debate are reserve and contingency funds, cost allocations, and transfers to and from the general fund. Reserve funds are designed to fund future capital projects related to infrastructure improvements. Contingency funds are designed to pay for unexpected operating expenses such as repairs. The standard reserve for wastewater is two hundred thousand dollars (\$200,000) annually. The standard contingency amount is fifty-one thousand eight hundred (\$51,800) annually. The City Council must decide what the annual amount of reserves and contingency funds should be.

The City Manager stated that the current year cost allocations for the general fund to support the utilities is a total of four hundred sixty-nine thousand four hundred one dollars (\$469,401) in personnel, material, supplies, and administrative costs.

The City Manager stated that currently the revenue transfer to the general fund is two hundred thirty-six thousand dollars (\$236,000) from the utilities. The City Council must decide if money will continue to be transferred to the general fund. If the Council does not want to transfer money to the general fund and maintain the same level of service, taxes would have to be raised by twenty-three point six cents (\$.236) to compensate for that revenue. From a financial perspective, each fund (general, water, wastewater) should support itself. A transfer from the utilities to the general fund could be considered a dividend like a stockholder would receive or a tax on assets.

The City Manager stated that the components of the water bill are a minimum charge to cover the costs that must be paid even if no water is sold, including reserves, contingency, transfer to general fund, and water debt service, and a usage charge to cover the cost of operating the utility, including personnel, insurance, administrative costs, and costs such as chemicals and line repairs.

The City Manager stated that with a minimum charge of forty dollars (\$40) and a usage rate of three dollars and twenty-five cents (\$3.25), the average water bill would decrease.

The City Manager stated that the industry standard is to estimate fifteen thousand gallons of usage per quarter for a residential user. Vice Mayor Lahman asked where the twenty thousand gallon per quarter allowance that the City currently uses came from. The City Manager stated that the City considers two hundred twenty-five gallons a day to be an equivalent dwelling unit (EDU), which is roughly twenty thousand gallons a quarter.

The City Manager stated that the rate revenue required for the water utility, including two percent fund balance, is five hundred forty-eight thousand two hundred nineteen dollars (\$548,219).

The City Manager stated that the standard is that the water and sewer should each be equal to one and a half to three percent of median household income. The water rates are below it. It seems like a good thing until the City seeks to borrow money and is told that the rates are too low. The proposed sewer rates exceed that standard. Human behavior and environment factors can effect usage.

The City Manager stated that there is only one year of usage data available for residential units. There would be one minimum charge for each EDU a customer has. At the end of each year, the customer's usage can determine how many EDUs the property should have.

The City Manager stated that the components of the wastewater bill are a minimum charge to cover the costs of reserves, contingency, transfer to general fund, and wastewater debt service; a usage charge to cover the cost of operating the utility, including personnel, insurance, administrative costs, and costs such as chemicals and line repairs; and a Kent County Sewer Adjustment Charge to cover the cost of treatment.

The City Manager stated that the minimum charge is ninety-seven dollars and eleven cents (\$97.11) and the usage rate is nine dollars and seventeen cents (\$9.17). The annual bill would be nine hundred forty-two dollars and twenty cents (\$942.20) versus five hundred sixty dollars (\$560), which is a significant increase.

The City Manager stated that the wastewater customer charge is decreasing because the prior figure was arbitrary, and even though reserves have been established and debt increased, the overall customer charge can be decreased. The usage rate increased because of a change in accounting practices to better capture general fund costs associated with utilities, the cost of County treatment fees, and ongoing inflow and infiltration (I&I) issues.

The City Manager stated that residential rates should be between one and a half percent to three percent of median household income, which is forty thousand two hundred four dollars (\$40,204). Harrington's current average for wastewater is one point four two one percent, and water is point nine five percent. Harrington's proposed wastewater rates range from two point one eight percent to two point three four percent, and proposed water rates between point eight five percent and point nine five percent. Residential rates should be between four hundred dollars (\$400) and six hundred dollars (\$600) per year per utility. The current annual wastewater rate is five hundred sixty dollars (\$560), with a proposed rate between nine hundred five dollars (\$905) and nine hundred forty-two dollars and twenty cents (\$942.20). The current annual water rate is three hundred eighty-four dollars and sixty-eight cents (\$384.68), with a proposed rate between three hundred forty dollars (\$340) and three hundred eighty-four dollars (\$384). The proposed rates do not meet the standard. Ms. Holloway stated that a rate above the USDA standard would probably qualify the City for additional grants from the USDA if funding is needed for capital improvements.

Mayor Moyer stated that some houses have more than one EDU. The City Manager stated that a house with two apartments would be charged two customer charges for both water and sewer on their bill.

The City Manager stated that commercial properties in particular will be upset, but it is fair if they use more water. Residential customers have been bearing the burden of the current rate structure.

The City Manager stated that metering and billing based on usage encourages conservation, so the rates should be looked at again in six months and a year to be sure they are adequate.

The City Manager stated that billing for Farmington will be based on the sewer meter for the whole town. Each customer will have a customer charge then the metered usage will be divided evenly among each Farmington customer.

The City Manager stated that other out of town residential sewer customers will be charged an average of what Harrington residents' usage is since they are not metered. Sewer meters are very expensive and not reliable for residential properties.

The City Manager stated that the rates presented tonight assume that the utilities will continue to transfer two hundred thirty-six thousand dollars (\$236,000) to the general fund. If the Council decides not to transfer those funds then taxes will have to be raised.

Mayor Moyer stated that a progressive tax rate could be introduced over time. The City Manager stated that the assessments are based on the 1987 assessed value. A house assessed at fifty thousand dollars (\$50,000) would see an

increase of one hundred twelve dollars (\$112) annually if the entire transfer to the general fund was not done. Mayor Moyer stated that customers can control the amount of water that is used to limit their water bill. Ms. Holloway stated that property taxes can be written off of income taxes.

Council Member Bivans asked about the use of fifteen thousand gallons in the proposed rates rather than the twenty thousand gallons that is the current allowance. The City Manager stated that fifteen thousand gallons is the typical quarterly residential usage and close to Harrington's average residential usage. Notices have been sent monthly for customers with high usage; there is currently no incentive to fix leaks, because it does not cost the resident any money because of the flat rate. The rate is not based on fifteen thousand gallons of usage per home; it is just an average to use to help explain a typical bill.

Mayor Moyer asked if an amount should be factored in to account for the conservation that will happen when usage bills begin. The City Manager stated that reserves are part of the customer charge and can be used if needed. The reserves are intended to help with debt service and be a pay-as-you-go system for capital improvements.

Vice Mayor Lahman stated that the wastewater pump stations are still maintained and paid for by the City and asked if the County would take over the pump stations. The City Manager stated that the County did it for Felton, which is a much smaller system, and would charge the City for it.

The City Manager stated that the City transmits one hundred ninety-three million four hundred thirteen thousand gallons to Kent County for treatment and bills for one hundred sixteen million ninety-eight thousand three hundred eighty-five gallons, which is a difference of about forty percent. The cost is one hundred eighty thousand dollars (\$180,000) a year, some of which is flushing and fires, but a lot of it is I & I. Ms. Holloway stated that ten percent or less is the standard. The City Manager stated that debt service on one million dollars is about sixty-six thousand dollars, which could fix a lot of I & I and save money.

Mayor Moyer asked if lawn meters were considered in the calculations. The City Manager replied no, there are not many now.

Mayor Moyer stated that the USDA made the City raise rates at one point to comply with standards. Council Member Stubbs stated that rates have not been increased since then. Ms. Holloway stated that inflation alone increases costs, so if the customer base does not change, theoretically, the rates should increase with inflation.

There being no further business, the City Council Workshop adjourned at 7:33 p.m.

Respectfully Submitted,

Kelly Blanchies  
Clerk of Council